

Singapore Company Update

Keppel Corporation

Bloomberg: KEP SP | Reuters: KPLM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Jul 2023

BUY

Last Traded Price (27 Jul 2023): S\$6.96 (STI : 3,337.42)

Price Target 12-mth: S\$8.30 (19% upside)

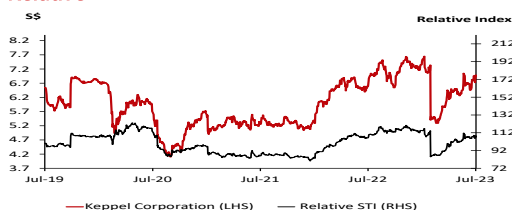
Analyst

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What's New

- 1H23 net profit in line with our estimate (8% below consensus); benign earnings from asset management and property development offset by higher electricity profits
- Look forward to better 2H with potential conclusion of asset management deals and divestment
- DPS of 15 Scts in 1H23; surprise special dividend-in-specie of KREIT shares (~18Scts/KEP share)
- Room to re-rate further after rising 19% since our reinstatement of coverage; Reiterate BUY and TP S\$8.30

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022A	2023F	2024F
Revenue	6,611	6,620	6,622	7,173
EBITDA	1,984	1,356	1,557	1,768
Pre-tax Profit	1,385	1,178	4,364	1,311
Net Profit	1,018	910	4,103	1,021
Net Pft (Pre Ex.)	1,244	827	921	1,021
Net Pft Gth (Pre-ex) (%)	nm	(33.5)	11.4	10.9
EPS (S cts)	55.9	50.0	225	56.1
EPS Pre Ex. (S cts)	68.3	45.4	50.6	56.1
EPS Gth Pre Ex (%)	nm	(34)	11	11
Diluted EPS (S cts)	55.6	49.7	224	55.8
Net DPS (S cts)	33.0	33.0	28.0	30.0
BV Per Share (S cts)	640	614	573	601
PE (X)	12.4	13.9	3.1	12.4
PE Pre Ex. (X)	10.2	15.3	13.8	12.4
P/Cash Flow (X)	nm	48.8	2.6	19.8
EV/EBITDA (X)	11.0	16.7	14.7	13.1
Net Div Yield (%)	4.7	4.7	4.0	4.3
P/Book Value (X)	1.1	1.1	1.2	1.2
Net Debt/Equity (X)	0.7	0.8	0.9	0.8
ROAE (%)	9.1	8.0	38.0	9.5
Earnings Rev (%):			(17)	(3)
Consensus EPS (S cts):			169.3	53.8
Other Broker Recs:		B: 7	S: 1	H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Cheers to KREIT distribution

Investment Thesis:

Asset manager with developer and operator capabilities. Keppel Corporation (Keppel) offers investors a unique and unrivalled proposition as a global asset manager with developer and operator capabilities in real estate and green industrial space (Energy & Environment and Infrastructure). We believe that Keppel's strong engineering/construction roots and track record in capital management positions it well to grow as a global asset manager.

Promising earnings growth ahead. We project core earnings (excl. O&M sale) to grow at a CAGR of 12% in the next two years, driven largely by an expanding FUM base under Asset Management from S\$50bn as of end-2022 towards S\$80bn. In the medium term, Keppel aims to double its FUM to S\$100bn by 2026 and quadruple to S\$200bn by 2030, which we estimate can add S\$4/share to our current TP. In addition, property and land sales in China/Vietnam look set to recover following their reopening.

Improving earnings quality and ROE. Earnings quality has improved dramatically, with recurring income contribution to group profit jumping from 25-40% prior to V2030 to c.60% in 2022. The trend should continue with concerted effort made to pivot away from orderbook-based revenue to income from fees and from its portfolio assets (real estate, infrastructure, and digital assets). While its ROE at ~9% remains far behind its target of 15%, we look forward to FUM growth and turnaround of property business to drive returns towards this target in the medium term.

BUY with S\$8.30 target price. Our SOTP is derived based on 1) 18x FY23 PE on asset management earnings; 2) 25% discount to Property RNAV plus DCF for Tianjin Eco-city land sales; and 3) 9x PE on Infrastructure and Connectivity earnings. Our TP of S\$8.30 implies 16x FY23 PE and 1.3x P/BV. We believe 40% of the upside will be driven by earnings growth of 12% CAGR while the remaining 60% will be on multiple re-rating from 1.1x towards 1.3x P/BV.

Key Risks

Slower-than-expected FUM growth, revaluation loss, and impairment of non-core assets pose downside risks to our forecasts.

At A Glance

Issued Capital (m shrs)	1,762
Mkt. Cap (S\$m/US\$m)	12,265 / 9,254
Major Shareholders (%)	
Temasek Holdings Pte Ltd	21.3
BlackRock Inc	5.0
Free Float (%)	73.7
3m Avg. Daily Val (US\$m)	19.6
GIC Industry : Industrials / Capital Goods	



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Keppel Corporation

WHAT'S NEW

1H23 results a mixed bag

Introduction of new segmental and horizontal reporting. As guided during Transformation Strategy briefing in May-2023, Keppel has changed its segmental reporting from 1H23 to reflect its horizontally integrated operating model and recurring income growth, particularly from fee-based asset management (Please refer to table below for details).

A mixed bag of results. Excluding disposal gains of S\$3.18bn from yard merger, 1H23 core profit of S\$445m (+3% y-o-y; +10% h-o-h) was broadly in line, making up c.48% of our 8% below consensus FY23F estimate. The star performer was Integrated Power Operations, which benefited from higher tariff in Singapore, offsetting the weaker than expected recovery of property profits and decline in asset management income as well as revaluation gains. Keppel still holds 1.85bn shares or c.2.7% stake in STM to encash.

Infrastructure earnings doubled y-o-y to S\$291m in 1H23, thanks to Integrated Power Operations, which contributed S\$245m or c.84%/55% of Infrastructure / Group profits. Management stressed that over 99% of customers are locked in on fixed or indexed electricity price plans, providing a cushion against power price fluctuations, and resiliency to new measures on Temporary Price Cap for the spot market. Given the tight power market in Singapore with no new capacity till 2026, we believe power earnings will likely stay elevated in the coming 2-3 years.

Keppel now has ~3.0GW renewable energy portfolio. Of which 65% is solar, 32% wind and 3% hydro.

Real Estate in China remains challenging, though there are some pockets of opportunities. 1H23 net profit from this division dropped 29% y-o-y and 8% h-o-h to S\$186m due to lower revaluation gains and operating income. While development profits grew 29% y-o-y to S\$142m, recovery pace seems slower than expected. 1Q23 surge in China home sales proved to be short-lived, as sentiment took a sharp turn in 2Q23. With the government's recent stance to support the property market, we are hopeful of sequential improvement in 2H. Demand in tier 1 & 2 cities remain supportive though project progress is lagging. While market conditions are less than ideal and uncertain, Keppel remains cautiously optimistic and continues to actively look for divestment opportunities. It has successfully sold two plots of land at Tianjin Eco-city, one of which recognized S\$14m profit in 1H23.

Connectivity earnings was steady, up 12% y-o-y to S\$37m, attributable to higher M1 income. This was partially offset by lower contributions from Data Centres and Networks Division due to startup cost entering new markets and initiatives.

Keppel introduced FUM (Funds under Management) of S\$53.2bn (+6% y-o-y). Keppel also introduced its Fund under Management (FUM), which is fee-bearing, to replace AUM previously. AUM has S\$12.5bn of assets on Keppel's balance sheet that can be potentially converted into future FUM.

Net gearing increased slightly to 0.86x, from 0.78x as of end 2022. Book value declined marginally following the dividend in specie of STM shares, which was largely offset by disposal gains recognised.

Recurring income grew 62% y-o-y to S\$340m in 1H23, making up 76% of group profit, improving earnings quality and stability. With steady power earnings contributing to c.70% of recurring income, which could be sustainable, lending support to dividend payout.

Stable interim dividend. Keppel declared an interim dividend of 15 Scts (comparable to last year), translating to 2.2% dividend yield (annualized 4.4%). Payout ratio is slightly higher than expected at 59%, vs guidance of ~50-55%.

Special dividend of KREIT shares. Pending EGM approval, Keppel shareholders will receive 1 KREIT share for every 5 Keppel shares held as special dividend in conjunction with Keppel's 55th year anniversary. Based on the last close of S\$0.92, the special dividend is worth c.18Scts / Keppel share. Keppel's stake in KREIT will be reduced from c.47% to 37%.

Company Background

Keppel is an asset manager and operator, focusing on green investment in real estate, infrastructure, connectivity, and alternative assets. Asset Management and Urban development account for 30-40% of group profit each while Energy & Environmental c20% and Connectivity c.5%. Corporate & others take the remaining 3-5%. It possesses unique value proposition and strong market leadership with its integrated business model, functioning as an eco-system of companies, providing end-to-end solutions for sustainable urbanisation. It has maintained AAA MSCI rating since 2020.

1H23 Net Profit (Horizontal Reporting)

Segment (\$ m)	Asset Mgmt Income	Operating Income	Valuation Items	EPC/ Development	Capital Recycling	Net Profit
Infrastructure	4	303	-2	-14	0	291
yoy chg	-79%	183%	100%	-200%	nm	109%
hoh chg	-69%	33%	-75%	-60%	-100%	84%
Real Estate	20	-28	31	142	21	186
yoy chg	54%	-190%	-71%	29%	nm	-29%
hoh chg	-29%	0%	-74%	112%	31%	-8%
Connectivity	6	35	-7	0	3	37
yoy chg	0%	3%	-30%	nm	0%	12%
hoh chg	-50%	-13%	-141%	nm	-175%	-43%
Corporate Activities						-69
yoy chg						nm
hoh chg						245%
Net Profit	30	310	22	128	24	445
yoy chg	-21%	80%	-77%	3%	700%	3%
hoh chg	-43%	29%	-83%	300%	-186%	10%

Asset Mgmt Income	Operating Income	Valuation Items	EPC/ Development	Capital Recycling
➤ Mgmt fees	➤ Sale of gas, utilities & electricity	➤ Property revaluation	➤ EPC	➤ Disposal gains/loss
➤ Performance fees	➤ Leasing income	➤ MTM gains/loss	➤ Development profits	➤ Gains from en-bloc sales
➤ Transaction fees (acq & divestment)	➤ O&M			
	➤ Facility & Property mgmt.			
	➤ Investment income			

Source of all data: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	1H2022	2H2022	1H2023	% chg yoy	% chg hoh
Revenue	3,356	3,264	3,716	10.7	13.8
Cost of Goods Sold	(2,644)	(2,530)	(2,678)	1.3	5.8
Gross Profit	712	734	1,038	45.8	41.5
Other Oper. (Exp)/Inc	(357)	(523)	(466)	30.6	(10.9)
Operating Profit	355	210	572	61.1	171.7
Other Non Opg (Exp)/Inc	24	24	31	29.6	28.9
Associates & JV Inc	203	333	122	(40.0)	(63.4)
Net Interest (Exp)/Inc	(31)	(23)	(122)	(290.0)	(422.5)
Exceptional Gain/(Loss)	63	21	3,182	nm	nm
Pre-tax Profit	613	565	3,784	517.0	570.2
Tax	(110)	(135)	(140)	27.1	3.5
Minority Interest	(7)	(4)	(12)	(81.2)	187.2
Net Profit	497	425	3,638	632.5	755.3
Net profit bef Except.	434	405	445	5.1	12.8
EBITDA	684	672	825	20.7	22.8
Margins (%)					
Gross Margins	21.2	22.5	27.9		
Opg Profit Margins	10.6	6.4	15.4		
Net Profit Margins	14.8	13.0	97.9		

Source of all data: Company, DBS Bank

Keppel Corporation

Peer comparison

Company	Last Px (LC)	Market cap (US\$m)	P/E		P/B		ROE (%)		Net D/E Current	Div Yld (%) Current
			FY23F	FY24F	FY23F	FY24F	FY23F	FY24F		
Blackstone	104.89	126,737	24.9x	17.8x	9.8x	9.4x	46.3%	65.3%	0.5x	3.7%
Brookfield Asset Management	33.81	13,945	24.6x	20.6x	na	na	na	na	CASH	1.9%
Cohen & Steers	65.2	3,202	21.5x	18.8x	na	na	44.1%	48.7%	CASH	3.4%
GoodMan Group	20.71	26,221	22.0x	19.9x	2.1x	2.0x	10.2%	10.3%	0.1x	1.4%
Charter Hall Group	11.245	3,575	12.2x	13.8x	1.6x	1.6x	12.8%	11.3%	CASH	4.5%
ESR Cayman	13.26	7,429	13.1x	11.4x	0.8x	0.8x	6.7%	7.3%	0.4x	1.9%
Capitaland Investment	3.35	12,888	18.3x	16.0x	1.1x	1.1x	6.3%	6.6%	0.5x	3.6%
		Average:	17.6x	16.3x	2.8x	2.7x	19.2%	22.6%	0.5x	3.2%
		Median:	19.9x	16.9x	1.4x	1.3x	10.2%	10.3%	0.5x	3.5%
Keppel Corp	6.75	8,935	3.9x	12.3x	1.1x	1.1x	7.9%	8.8%	0.8x	4.9%

Source: Bloomberg Finance L.P., DBS Bank estimates

SOTP valuation

	Net Profit FY23F	PE Multiple (x)	Valuation (\$ m)	Valuation (\$/share)	Methodology
Asset Management	315	18	5,711	3.14	
Keppel Capital & Private Funds	125	18	2,243	1.23	18x PE
REIT & Trusts	191	18	3,468	1.90	DBS's TP
Urban Development	354	20	7,147	3.93	
Keppel Land	314	21	6,507	3.57	25% discount to RNAV
Tianjin Eco-City	40	16	639	0.35	DCF (10% WACC)
Energy & Environment	197	9	1,772	0.97	
Connectivity	53	9	473	0.26	9x PE
Total SOTP valuation			15,102	8.30	

Source: Bloomberg Finance L.P., DBS Bank estimates

Historical PB band



Source: Bloomberg Finance L.P., DBS Bank estimates

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Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (\$m)					
Energy & Environment	3,943	3,560	4,229	3,933	4,130
Urban Development	1,275	1,629	904	1,084	1,301
Connectivity	1,220	1,260	1,291	1,356	1,424
Asset Management	135	162	195	249	318
Others	1.00	0.0	0.48	0.0	0.0
Total	6,574	6,611	6,620	6,622	7,173
Net Profit (\$m)					
Energy & Environment	(1,181)	(189)	173	197	223
Urban Development	438	763	282	354	393
Connectivity	13.0	64.0	37.2	52.5	60.8
Asset Management	280	301	311	315	366
Others	(56.0)	308	36.5	2.87	(21.0)
Total	(506)	1,247	839	921	1,021
Net Profit Margins (%)					
Energy & Environment	(30.0)	(5.3)	4.1	5.0	5.4
Urban Development	34.4	46.8	31.2	32.6	30.2
Connectivity	1.1	5.1	2.9	3.9	4.3
Asset Management	207.4	185.9	159.4	126.8	115.0
Others	N/A	N/A	N/A	N/A	N/A
Total	(7.7)	18.9	12.7	13.9	14.2

Income Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	6,574	6,611	6,620	6,622	7,173
Cost of Goods Sold	(4,591)	(5,082)	(5,174)	(4,966)	(5,308)
Gross Profit	1,983	1,529	1,445	1,656	1,865
Other Opng (Exp)/Inc	(1,975)	(400)	(880)	(914)	(993)
Operating Profit	8.40	1,129	565	742	871
Other Non Opg (Exp)/Inc	29.4	105	48.5	66.2	71.7
Associates & JV Inc	(162)	459	536	531	592
Net Interest (Exp)/Inc	(130)	(81.8)	(54.8)	(156)	(224)
Exceptional Gain/(Loss)	0.0	(226)	83.1	3,182	0.0
Pre-tax Profit	(255)	1,385	1,178	4,364	1,311
Tax	(253)	(375)	(245)	(242)	(269)
Minority Interest	2.23	11.5	(10.8)	(18.8)	(20.8)
Preference Dividend	0.0	(3.4)	(11.6)	0.0	0.0
Net Profit	(506)	1,018	910	4,103	1,021
Net Profit before Except.	(506)	1,244	827	921	1,021
EBITDA	289	1,984	1,356	1,557	1,768
Growth					
Revenue Gth (%)	(13.3)	0.6	0.1	0.0	8.3
EBITDA Gth (%)	(80.3)	586.4	(31.6)	14.8	13.5
Opg Profit Gth (%)	(99.0)	13,342.7	(50.0)	31.2	17.5
Net Profit Gth (Pre-ex) (%)	nm	nm	(33.5)	11.4	10.9
Margins & Ratio					
Gross Margins (%)	30.2	23.1	21.8	25.0	26.0
Opg Profit Margin (%)	0.1	17.1	8.5	11.2	12.2
Net Profit Margin (%)	(7.7)	15.4	13.8	62.0	14.2
ROAE (%)	(4.6)	9.1	8.0	38.0	9.5
ROA (%)	(1.6)	3.2	2.9	14.5	3.9
ROCE (%)	0.0	3.3	1.8	3.1	3.0
Div Payout Ratio (%)	N/A	59.0	66.0	12.4	53.5
Net Interest Cover (x)	0.1	13.8	10.3	4.7	3.9

Source: Company, DBS Bank

Keppel Corporation

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	3,677	2,934	3,356	3,264	3,716
Cost of Goods Sold	(2,639)	(2,443)	(2,644)	(2,530)	(2,678)
Gross Profit	1,038	491	712	734	1,038
Other Oper. (Exp)/Inc	(850)	450	(357)	(523)	(466)
Operating Profit	188	941	355	210	572
Other Non Op (Exp)/Inc	83.8	21.1	24.2	24.3	31.4
Associates & JV Inc	315	144	203	333	122
Net Interest (Exp)/Inc	(70.7)	(11.1)	(31.4)	(23.4)	(122)
Exceptional Gain/(Loss)	0.0	(226)	62.5	20.5	3,182
Pre-tax Profit	516	870	613	565	3,784
Tax	(219)	(156)	(110)	(135)	(140)
Minority Interest	2.95	8.56	(6.6)	(4.2)	(12.0)
Net Profit	300	722	497	425	3,638
Net profit bef Except.	300	948	434	405	456
EBITDA	783	1,200	684	672	825

Growth

Revenue Gth (%)	8.4	(20.2)	14.4	(2.7)	13.8
EBITDA Gth (%)	99.2	53.3	(43.0)	(1.7)	22.8
Op (Profit) Gth (%)	19.1	400.6	(62.3)	(40.7)	171.7
Net Profit Gth (%)	858.7	140.7	(31.2)	(14.4)	755.3

Margins

Gross Margins (%)	28.2	16.7	21.2	22.5	27.9
Op (Profit) Margins (%)	5.1	32.1	10.6	6.4	15.4
Net Profit Margins (%)	8.2	24.6	14.8	13.0	97.9

Balance Sheet (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	2,716	2,044	977	1,057	1,122
Invts in Associates & JVs	5,991	6,050	6,662	7,241	7,879
Other LT Assets	9,011	9,383	8,416	8,416	8,416
Cash & ST Invts	2,614	3,644	1,191	836	622
Inventory	7,617	7,774	2,557	2,472	2,678
Debtors	2,531	2,169	1,228	1,228	1,330
Other Current Assets	1,627	1,260	9,904	4,585	4,585
Total Assets	32,106	32,323	30,935	25,836	26,633
ST Debt	4,433	4,749	3,614	3,614	3,614
Creditor	4,604	4,957	2,786	2,649	2,869
Other Current Liab	3,050	2,129	4,960	719	763
LT Debt	7,607	7,268	6,766	6,766	6,766
Other LT Liabilities	1,257	778	896	896	896
Shareholder's Equity	10,728	11,655	11,178	10,438	10,950
Minority Interests	427	786	735	754	775
Total Cap. & Liab.	32,106	32,323	30,935	25,836	26,633
Non-Cash Wkg. Capital	4,120	4,116	5,943	4,918	4,961
Net Cash/(Debt)	(9,425)	(8,373)	(9,189)	(9,544)	(9,758)
Debtors Turn (avg days)	146.6	129.7	93.6	67.7	65.1
Creditors Turn (avg days)	402.3	364.2	284.5	208.9	198.4
Inventory Turn (avg days)	727.6	586.2	379.5	193.3	185.2
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.3
Current Ratio (x)	1.2	1.3	1.3	1.3	1.3
Quick Ratio (x)	0.4	0.5	0.2	0.3	0.3
Net Debt/Equity (X)	0.8	0.7	0.8	0.9	0.8
Net Debt/Equity ex MI (X)	0.9	0.7	0.8	0.9	0.9
Capex to Debt (%)	4.0	(1.1)	5.9	2.9	2.9
Z-Score (X)	1.1	1.2	1.2	1.2	1.2

Source: Company, DBS Bank

Keppel Corporation

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	(255)	1,385	1,178	4,364	1,311
Dep. & Amort.	414	406	242	219	233
Tax Paid	(177)	(260)	(388)	(259)	(242)
Assoc. & JV Inc/(loss)	162	(459)	(536)	(531)	(592)
Chg in Wkg.Cap.	595	(263)	426	1,042	(70.0)
Other Operating CF	(536)	(1,162)	(662)	0.0	0.0
Net Operating CF	202	(352)	260	4,835	640
Capital Exp.(net)	(484)	137	(613)	(299)	(298)
Other Invts.(net)	332	1,146	579	0.0	0.0
Invts in Assoc. & JV	(367)	513	(676)	(249)	(248)
Div from Assoc & JV	245	311	331	201	202
Other Investing CF	0.0	0.0	(288)	0.0	0.0
Net Investing CF	(274)	2,108	(667)	(347)	(344)
Div Paid	(297)	(357)	(676)	(601)	(510)
Chg in Gross Debt	1,081	(599)	(1,637)	0.0	0.0
Capital Issues	0.0	398	0.0	0.0	0.0
Other Financing CF	0.22	(115)	416	(4,242)	0.0
Net Financing CF	784	(673)	(1,897)	(4,843)	(510)
Currency Adjustments	(9.8)	53.4	(170)	0.0	0.0
Chg in Cash	702	1,137	(2,474)	(355)	(214)
Opg CFPS (S cts)	(21.6)	(4.9)	(9.1)	208	39.0
Free CFPS (S cts)	(15.5)	(11.8)	(19.4)	249	18.8

Source: Company, DBS Bank

Target Price & Ratings 12-mth History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Apr 23	6.05	8.30	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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